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March 22, 2012

VIA ELECTRONIC FILING

Ms. Jocelyn Boyd
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Chem-Nuclear Systems, LLC, a Division of Duratek, Inc., for
Adjustment in the Levels of Allowable Costs and for Identification of Allowable
Costs
Docket No. 2000-366-A

Dear Ms. Boyd:

Attached please find the Office of Regulatory Staff's ("ORS") Examination Report in the above referenced case. The ORS does not intend to file Direct testimony in this matter. A Settlement in this case is pending and will be filed with the Commission on or before April 12, 2012. ORS currently intends to have Daniel Sullivan available at the hearing in this case on April 19, 2012 to answer any questions from the Commission regarding ORS' Examination Report.

Please let me know if you have any questions.

Yours Truly,


Jeffrey M. Nelson

cc: Parties of Record

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EXAMINATION REPORT FOR DOCKET NO. 2000-366-A

THE APPLICATION OF CHEM-NUCLEAR SYSTEMS, LLC, A SUBSIDIARY OF DURATEK, INC., FOR ADJUSTMENT IN THE LEVELS OF ALLOWABLE COSTS AND FOR IDENTIFICATION OF ALLOWABLE COSTS

On September 28, 2011, Chem-Nuclear Systems, LLC ("Chem-Nuclear") filed an application for Adjustment in the Levels of Allowable Costs for the Fiscal Year Ending June 30, 2011 and for Identification of Allowable Costs for the Fiscal Year Ending June 30, 2012, pursuant to Public Service Commission of South Carolina ("PSC" or "Commission") Order No. 2011-388 in Docket No. 2000-366-A.

Effective July 1, 2008, Pursuant to S.C. Code Ann. § 48-46-40 (A)(6)(a), (Rev. 2008 & Supp. 2011), Chem-Nuclear can only accept waste generated within the three Atlantic Compact states, South Carolina, New Jersey and Connecticut. Additionally, since July 1, 2008, Chem-Nuclear commenced site closure ("institutional") activities parallel to its site disposal operating ("operational") activities. These institutional costs include site maintenance, monitoring, security, other administrative expenses and license costs, and are paid from the Barnwell Decommissioning Trust Fund each year. Remaining reimbursable costs are included as operating costs in Chem-Nuclear's application for reimbursement filed with the Public Service Commission.

The South Carolina Office of Regulatory Staff ("ORS") completed an examination of the application and the underlying financial records of Chem-Nuclear for the operation of its regional low-level radioactive waste disposal facility located in the vicinity of Barnwell, South Carolina. Based on this examination, ORS recommended adjustments to Chem-Nuclear's Fixed costs for the fiscal year ending June 30, 2011. These adjustments were discussed with members of Chem-Nuclear's management who agreed with the propriety of the adjustments. ORS also determined that reimbursable amounts included for Variable costs and Irregular costs for the fiscal year ending June 30, 2011 on the Application are materially correct and conform to Commission rules and regulations.

A comparison of the allowable reimbursable costs to the amounts authorized by the PSC in Order No. 2011-388 dated May 26, 2011, was prepared by ORS Audit Staff. This comparison is attached herewith as Exhibit A. As shown on Exhibit A, ORS recommends that Chem-Nuclear be allowed to retain, as recovery of their expenditures in operating the Barnwell Low Level Radioactive Waste Storage Facility for the fiscal year ending June 30, 2011, the following:

- \$ 2,744,815 in Fixed Costs
- \$ 533,618 in Variable Costs
- \$ 158,502 in Irregular Costs

In conjunction with procedures performed for the fiscal year ending June 30, 2011, ORS also examined transactions recorded by Chem-Nuclear for the period beginning July 1, 2011, and extending through December 31, 2011. Based on this examination, ORS recommended adjustments to Chem-Nuclear's Projected Fixed costs and Projected Variable cost rates for the fiscal year ending June 30, 2012. These adjustments were discussed with members of Chem-Nuclear's management who agreed with their propriety. ORS also examined Chem-Nuclear's Irregular costs for the fiscal year ending June 30, 2012, as listed in Exhibit AA. These costs are consistent with the Projected Irregular costs filed in the Amended Application by Chem-Nuclear.



Daniel Sullivan, Auditor
March 22, 2012

Chem-Nuclear Systems, LLC
Operating Experience and Reimbursable Costs
For the Twelve Months Ended June 30, 2011

Exhibit A
Page 1 of 2

	Per Amended Application	Commission Order No. 2011-388	Actual Costs Over (Under) Commission Allowed
<u>Fixed Costs</u>			
Labor, Fringe and Non-Labor	\$ 1,492,087	\$ 1,371,044	\$ 121,043
Corporate Allocations (G&A)	490,805	560,378	(69,573)
Equipment Leases and Support	177,167	136,176	40,991
Depreciation	51,111	51,668	(557)
Insurance	418,688	431,175	(12,487)
Legal (License Appeal)	<u>114,957</u>	<u>207,407</u>	<u>(92,450)</u>
Total Fixed Costs	<u>\$ 2,744,815</u>	<u>\$ 2,757,848</u>	<u>\$ (13,033)</u>
<u>Variable Costs</u>			
Vault Cost	\$ 420,584	\$ 447,035	\$ (26,451)
Labor and Non-Labor Costs	<u>113,034</u>	<u>162,541</u>	<u>(49,507)</u>
Total Variable Costs	<u>\$ 533,618</u>	<u>\$ 609,576</u>	<u>\$ (75,958)</u>

Chem-Nuclear Systems, LLC
Operating Experience and Reimbursable Costs
For the Twelve Months Ended June 30, 2011

Exhibit A
Page 2 of 2

	Per Amended Application	Commission Order No. 2011-388	Actual Costs Over (Under) Commission Allowed
<u>Irregular Costs</u>			
Various Trenches (Design, Construct, and Backfill)			
Labor	23,500		
Non-Labor	73,929		
Total	<u>\$ 97,429</u>	<u>\$ 98,307</u>	<u>\$ (878)</u>
License Renewal and Appeal Costs			
Labor	3,807		
Non-Labor	-		
Total	<u>3,807</u>	<u>10,000</u>	<u>(6,193)</u>
Decontamination & Corrective Actions			
Labor	-		
Non-Labor	-		
Total	<u>-</u>	<u>5,000</u>	<u>(5,000)</u>
Site Engineering and Drawings Updates			
Labor	5,020		
Non-Labor	-		
Total	<u>5,020</u>	<u>3,000</u>	<u>2,020</u>
Site Assessments			
Labor	31		
Non-Labor	-		
Total	<u>31</u>	<u>5,000</u>	<u>(4,969)</u>
Other Irregular Costs			
Labor	36,179		
Non-Labor	3,689		
Total	<u>39,868</u>	<u>56,347</u>	<u>(16,479)</u>
Increased Security Controls			
Labor	2,677		
Non-Labor	4,936		
Total	<u>7,613</u>	<u>10,000</u>	<u>(2,387)</u>
Irregular Costs Without Large Component Disposal	<u>\$ 153,768</u>	<u>\$ 187,654</u>	<u>\$ (33,886)</u>
Large Component Disposal			
Labor	3,207		
Non-Labor	1,527		
Total	<u>4,734</u>	<u>-</u>	<u>4,734</u>
Total Irregular Costs	<u>\$ 158,502</u>	<u>\$ 187,654</u>	<u>\$ (29,152)</u>

Chem-Nuclear Systems, LLC
Proposed Fixed, Irregular and Variable Costs
For the Fiscal Year Ending June 30, 2012 To Date

Exhibit AA

Page 1 of 2

	<u>Per Amended</u>	<u>Actual Through</u>	
	<u>Application</u>	<u>12/31/2011</u>	<u>Difference</u>
<u>FIXED COSTS</u>			
Fixed Costs to which 29% operating margin is added:			
Labor, Fringe and Non-Labor	\$ 1,530,000	\$ 675,364	\$ 854,636
Corporate Allocations (Management Fees/G&A)	515,000	297,180	217,820
Depreciation	56,385	28,193	28,192
Insurance	427,031	139,070	287,961
Equipment Leases and Support	154,106	58,335	95,771
Total Margin Costs	<u>2,682,522</u>	<u>1,198,142</u>	<u>1,484,380</u>

Fixed Costs to which 29% operating margin is not added:

Legal Support (license appeal)	<u>71,726</u>	<u>11,568</u>	<u>60,158</u>
Total Non-margin Costs	<u>71,726</u>	<u>11,568</u>	<u>60,158</u>
Total Fixed Costs	<u>\$ 2,754,248</u>	<u>\$ 1,209,710</u>	<u>\$ 1,544,538</u>

IRREGULAR COSTS

Trench Construction	\$ 98,307	\$ 70,706	\$ 27,601
License Appeal	10,000	4,256	5,744
Corrective Action	5,000	235	4,765
Site Engineering Drawings	3,000	922	2,078
Site Assessments	5,000	-	5,000
Miscellaneous	56,347	6,531	49,816
Increased Security Controls	<u>10,000</u>	<u>3,094</u>	<u>6,906</u>
Total Irregular Costs	<u>\$ 187,654</u>	<u>\$ 85,744</u>	<u>\$ 101,910</u>

Chem-Nuclear Systems, LLC
Proposed Fixed, Irregular and Variable Costs
For the Fiscal Year Ending June 30, 2012 To Date

Exhibit AA
Page 2 of 2

	<u>VARIABLE RATES</u>	
	<u>Costs</u>	<u>Variable Factor</u>
Variable Labor and Non-Labor Rates		
Vault Purchase & Inspection	\$ <u>81.35</u>	Per Vault
A B C Waste Disposal	<u>1,948.78</u>	Per Shipment
Slit Trench Shipment	<u>29,787.46</u>	Per Offload
Customer Assistance	<u>47.64</u>	Per Shipment
Trench Records	<u>130.34</u>	Per Container
Variable Material Cost Rates (Vaults)		
Class A Waste	\$ <u>40.61</u>	Per Cubic Foot
Class B Waste	<u>42.08</u>	Per Cubic Foot
Class C Waste	<u>42.97</u>	Per Cubic Foot
Slit Trench Waste	<u>191.99</u>	Per Cubic Foot